PENSCO
TRUST COMPANY

Toll Free: 1-800-962-4238
www.pensco.com

Checklist

Items to complete and return via fax, email or mail *(retain copies for your records)*

Please supply all documents listed below to PENSCO Trust Company (PENSCO). Submitting your request with incomplete or missing documents will delay the review and funding process.

Required Documents:

- ☐ Loan Policy (unless previously provided)
- ☐ Loan Application - page 6, must be approved by Plan Administrator
- ☐ Loan Agreement - page 7
- ☐ Amortization Schedule - provided by the Plan Administrator

Recommended Document:

- ☐ ACH Debit Authorization from to establish automatic loan repayments from your checking or savings account.

INSTRUCTIONS FOR USING THE LOAN KIT

This *Qualified Retirement Plan Loan Kit* is designed for use with qualified retirement plans that offer loan programs. Your Plan documents must specifically provide that a loan program is available under the Plan you have adopted. This loan kit is not intended to serve as an amendment authorizing a loan program under plans which otherwise do not provide for loans. Rather, it may be used only with plan documentation that independently authorizes implementation of a loan program.

This loan kit contains documents required under the Employee Retirement Income Security Act (ERISA), Department of Labor (DOL) regulations, and the Internal Revenue Code (Code). You should consult with your legal advisor to determine the extent to which additional documentation, if any, is necessary to lawfully administer your loan program.

The forms contained in this loan kit that must be completed by your Plan's loan administrator and the individual requesting a loan from the Plan. These forms include the following:

- *Loan Application*
- *Loan Agreement*

This loan kit also contains a *Loan Policy* that establishes the terms of your loan program and a *Loan Summary* that includes a general explanation of qualified retirement plan loan rules including taxation issues and other operational concerns.

To process a loan, the following steps must be completed.

STEP 1: Complete the *Loan Application*

To initiate a loan from the Plan, the applicant must obtain and complete a *Loan Application*. Once the applicant has completed and signed the *Loan Application*, it must be provided to you for review.

STEP 2: Approve or Deny the *Loan Application*

You must make a determination under the loan approval requirements contained in your Plan (i.e., *Loan Information Sheet)* whether the loan will be approved or denied.

If you approve the loan, sign the *Loan Application*.

If you deny the loan, you must notify the applicant in writing of the denial and the reasons for denial. Notification of denial may be accomplished by completing the last portion of the *Loan Application* and providing a copy to the applicant.

STEP 3: Complete the *Loan Agreement*

If you approve the loan, complete the *Loan Agreement*, and provide a copy to the Borrower for his or her signature.

NOTE: *If the Borrower is married, and spousal consent is required, the Borrower's spouse must generally consent to the loan not more than 90 days before disbursement of loan proceeds.*

NOTE: *If you approve the loan and are not using the Ascensus plan document, you may also need to provide a truth in lending disclosure to the Borrower if the loan amount exceeds the Borrower's vested individual plan balance.*

NOTE: *All original documents should be retained by the Plan's loan administrator and copies, as applicable, given to the applicant/Borrower and to the Custodian.*

Qualified Retirement Plan LOAN POLICY

	As the Employer offering a plan that allows loans to be taken from the Plan assets, it is your responsibility to set forth the terms of the Plan's loan program.
PLAN LOAN INFORMATION	Plan Name: ______________________ Plan Number: ______________________ Plan Year End: ______________________
EFFECTIVE DATE	The effective date of the Plan loan program is: ______________________
LOAN ADMINISTRATOR	The person responsible for administering the loan program is *(insert Name of Employer-Sole Proprietor)* ______________________ The loan administrator may be reached at the following address and/or telephone number ______________________
LOAN APPLICATION PROCEDURE	To apply for a loan under this Plan, an applicant must complete and return to the loan administrator a *Loan Application*, furnishing all information requested and pay any required loan application processing fees. In addition, they must follow the procedures described below *(specify)* ______________________
LIMITATIONS ON TYPES OF LOANS	Loans from this Plan may be used for the following purposes: ☒ any ☐ purchase of a principal residence ☐ post-secondary tuition for the Borrower or their immediate family ☐ medical expenses for the Borrower or their immediate family ☐ rent or mortgage payments to prevent eviction from or foreclosure on the Borrower's principal residence ☐ funeral expenses ☐ uninsured damage to principal residence (under Internal Revenue Code Section 165) ☐ other *(specify)*: ______________________ *If no option is selected, loans will be allowed for any purpose.*
LIMITATIONS ON LOANS BY MONEY TYPE – SECURITY	All money types listed below will be allowed to secure a loan unless otherwise checked: ☐ pre-tax elective deferrals ☐ Roth elective deferrals ☐ matching contributions ☐ profit-sharing contributions ☐ other *(specify)*: ______________________
LIMITATIONS ON LOANS BY MONEY TYPE – DISTRIBUTION	All money types listed below will be available to fund a loan distribution unless otherwise checked: ☐ pre-tax elective deferrals ☐ Roth elective deferrals ☐ matching contributions ☐ profit-sharing contributions ☐ other *(specify)*: ______________________
LIMITATIONS ON LOANS BY INVESTMENT TYPE	Loans from this Plan can be taken from the following investment types: ☒ all Plan assets ☐ mutual funds ☐ other *(specify)*: ______________________ *(i.e. company stock, brokerage accounts)* *If no option is selected, loans will be allowed from all Plan assets.*
LOAN APPROVAL STANDARDS	Decisions approving or denying loans from this Plan will be based on the following criteria: ☒ the value of the applicant's vested individual account balance ☐ other *(specify)*: ______________________ **NOTE:** *The loan approval standard selected must not cause loans to be made available on a discriminatory basis.* *If no option is selected, the loan decision will be based on the value of the vested individual account balance.*

NUMBER OF LOANS	The maximum number of outstanding loans the Borrower may have at any time is 2 *(specify)* *If no number is specified, the maximum number of outstanding loans will be unlimited. If a participant has an outstanding plan loan that is in default they may not request an additional loan until the defaulted loan is paid off.*
LOAN PRINCIPAL LIMITATIONS	Loans from this Plan shall be in a minimum amount of $1,000.00 *(should not exceed $1,000)*[1] *If no amount is specified, the minimum amount will be $1,000.* Loan limitations include *(select all that apply)*. ☐ the maximum amount of all loans outstanding cannot exceed the lesser of one-half of the Borrower's vested individual account balance or $50,000 ☐ other *(specify)*: ____ *If no option is selected, the maximum amount will be the lesser of one-half of the vested individual account balance or $50,000. Refer to loan summary for more details about calculating maximum loan amount.*
INTEREST CALCULATIONS	Interest on loans from this Plan will be computed on the following basis: ☐ prime rate *(as specified in the Wall Street Journal)* ☒ prime rate *(as specified in the Wall Street Journal)* plus 1 percent ☐ other *(specify)*: ____ **NOTE:** *The interest rate must be comparable to that charged by commercial lenders in a similar transaction. Any loan renewals are subject to interest rate modification.* *If no option is selected, the interest rate will be the prime rate.*
COLLATERAL PLEDGE	A percentage of the Borrower's vested account balance equal to the amount borrowed divided by their vested individual account balance is pledged as security for repayment of loans under this program.
DEFAULT PROVISIONS	The following are deemed to be acts of default under this Plan loan program ☒ failure to remit payment in a timely manner as required under the loan agreement *(required)* ☒ breach of any of the Borrower's obligations or duties under the loan agreement *(required)* ☒ separation from service ☐ other *(specify)*: ____
CURE PERIOD AFTER DEFAULT DUE TO FAILURE TO REMIT PAYMENTS	Will the Plan allow for a cure period before a loan in default due to a failure to remit payments in a timely manner becomes a deemed distribution? ☒ yes, the loan will not become a deemed distribution until the end of the quarter following the quarter in which the default occurred. ☐ yes, the loan will not become a deemed distribution until *(specify)*: ____ *(cannot be later than the end of the quarter following the quarter in which the default occurred)* ☐ no *If no option is selected, the loan will become a deemed distribution at the end of the quarter following the quarter in which the default occurred.*
CURE PERIOD AFTER DEFAULT DUE TO SEPARATION FROM SERVICE	If the Plan defaults loans due to separation from service, will this Plan allow for a cure period before the loan becomes a deemed distribution? ☐ yes, the loan will not become a deemed distribution until the end of the quarter following the quarter in which the default occurred. ☐ yes, the loan will not become a deemed distribution until *(specify)*: ____ *(cannot be later than the end of the quarter following the quarter in which the default occurred)* ☒ no *If no option is selected, the loan will become a deemed distribution at the end of the quarter following the quarter in which the default occurred.*

[1] The Department of Labor (DOL) has not set the $1,000 as a hard and fast upper limit for the minimum loan amount. The DOL will determine the suitability of the limit using a facts and circumstances test. The DOL has said that as long as the limit is not above $1,000 they will assume it meets this test. It is possible that a plan may choose a higher limit but may have a discrimination issue if the plan is ever audited by the DOL.

OFFSET PROVISIONS	When will a loan be offset? ☐ upon separation from service *(only if separation from service is a distribution trigger under the Plan)* ☒ upon reaching a triggering event for distribution allowed under the Plan following a deemed distribution ☒ upon a lump sum distribution due following separation from service ☐ upon separation from service following a deemed distribution *(only if separation from service is a distribution trigger under the Plan)* ☐ other *(specify)*: ____________________ **NOTE:** *The Borrower must have reached a distribution trigger under the Plan in order for a loan to be offset.* *If no option is selected, the Plan will offset loans upon lump sum distribution following separation from service.*
SUSPENSION PROVISIONS	Will this Plan allow for the suspension of loan payments during a bona fide leave of absence? ☒ yes, for 12 months *(no more than 12)* for a bona fide leave of absence. ☒ yes, for the entire time the Borrower is on qualified military leave. ☐ no *If no options are selected, the Plan will allow for suspension of loan payments for 12 months during a bona fide leave of absence and for the entire time the Borrower is on military leave.*
ROLLOVER PROVISIONS	Will this Plan allow for the rollover of loans? ☐ yes, this Plan will accept rollovers of loans into the Plan. ☒ yes, this Plan will allow rollover of loans out of the Plan. ☐ no *If no options are selected, this Plan will not allow for the rollover of loans.*
TRANSFER PROVISIONS	Will this Plan allow for the transfer of loans? ☐ yes, this Plan will accept transfer of loan into the Plan. ☒ yes, this Plan will allow transfers of loans out of the Plan. ☐ no *If no options are selected, this Plan will not allow for the transfer of loans.*
REFINANCE PROVISIONS	Will this Plan allow for the refinancing of loans? ☐ yes ☒ no *If no option is selected, this Plan will allow for the refinancing of loans.*
PAYROLL DEDUCTION REQUIREMENT	Must the Borrower make loan payments on a non-deemed loan thru a payroll deduction arrangement? ☐ yes ☒ no *If no option is selected, this Plan will require loan payments to be made thru a payroll deduction arrangement.*
LOAN REPAYMENT SCHEDULE	How often must loan payments be made? ☒ quarterly ☐ monthly ☐ bi-weekly ☐ weekly ☐ on a payroll basis ☐ other *(specify)*: ____________________ **NOTE:** *Payments must be made at least quarterly.* *If no option is selected, this Plan will require payments to be made on a payroll basis.*

LOAN SUMMARY

Requirements

Generally, all distributions from qualified retirement plans are subject to income taxation. Loans from qualified retirement plans represent one exception to this general rule. However, to ensure that qualified retirement plan loan proceeds are not characterized as taxable income to loan recipients, plan loan programs must satisfy two sets of requirements. First, the loan cannot be classified as a "prohibited transaction" under Code Sections 4975 and ERISA Section 406. Second, the loan amount must not exceed prescribed limits under Code Section 72.

Prohibited Transactions (Code Section 4975/ERISA Section 406)

Loan proceeds will be subject to a 15 percent penalty tax (and, if not corrected in a timely manner, a 100 percent penalty tax) unless the Plan's loan program and/or an individual loan, as the case may be, meets the following requirements.

1. Loans must be made available to parties in interest on a reasonably equivalent basis.
2. Loans must not be made available to highly compensated employees in an amount greater than the amount available to other employees.
3. All loans must be made in accordance with the specific provisions set forth in the Plan (i.e., *Loan Information Sheet*).
4. All loans must bear a reasonable rate of interest.
5. All loans must be adequately secured.

Maximum Loan Balance (Code Section 72)

If a qualified retirement plan Borrower receives loan proceeds in excess of the limits prescribed below, or in violation of the loan terms prescribed below, the loan proceeds will be includable in income and the Borrower may be subject a 10 percent penalty tax on such amount. Under Code Section 72(p) and (t), qualified retirement plan loan proceeds are taxable to the extent such proceeds, when added to the outstanding balance of all other loans from the Plan to the Borrower, exceed the lesser of

(1) $50,000 reduced by the highest outstanding balance of loans from the Plan during the 12 month period ending on the day before the date upon which the loan was made, or

(2) the greater of one-half of the present value of the nonforfeitable accrued benefit of the Borrower under the Plan or $10,000.

This maximum loan test can be demonstrated by the following mathematical equation.

EXAMPLE: A successful applicant may borrow the lesser of A or B.

A = $50,000 – HOB
B = the greater of x or y
x = (.5 x NAB) – OB
y = $10,000 – OB

OB is the current outstanding balance of any loans to the applicant.

HOB is the highest outstanding balance of any loans made from the Plan to the applicant during the preceding 12 month period ending on the day before such loan is to be made.

NAB is the current nonforfeitable accrued benefit of the applicant.

EXAMPLE: On January 1, 2010, Ann received a $15,000 loan from her employer's plan. One year later, on January 1, 2011, Ann's outstanding balance (OB) on her loan is $10,000 and her nonforfeitable accrued benefit (NAB) in the plan is $35,000. The maximum amount Ann is eligible to borrow from the plan on January 1, 2011, may be determined by applying the above formula.

STEP 1: Determine A

A = $50,000 – HOB
= $50,000 – $15,000
= $35,000

STEP 2: Determine B

B = greater of x or y

x	y
x = (.5 x NAB) – OB	y = $10,000 – OB
= (.5 x $35,000) – $10,000	= $10,000 – $10,000
= $17,500 – $10,000	= $0
= $7,500	**= $7,500**

NOTE: B = the greater of x or y In this example, x = $7,500 and y = 0. Therefore, B = $7,500.

STEP 3: Compare A and B

A = $35,000
B = $7,500

Recall, the maximum additional amount which Ann may borrow from her employer's plan, as of January 1, 2010, is the lesser of A or B. In this example, A = $35,000 and B = $7,500. **Therefore, as of January 1, 2011, Ann is eligible to borrow an additional $7,500 from her employer's plan.**

Loans must be repaid in substantially equal amounts on not less than a quarterly basis over the term of the loan. Generally, the term of a loan cannot exceed five years. An exception to the five year pay-back rule exists for loans used to purchase principal places of residence for loan recipients.

Operational Concerns

Spousal Consent – Generally, any plan that is subject to the qualified joint and survivor annuity requirements must require spousal consent. A spousal consent provision is found on the *Loan Application* and the *Loan Agreement*. This consent must generally be obtained not more than 90 days prior to disbursement of loan proceeds. The Plan documents must be reviewed to determine if the spousal consent requirement applies to the Plan.

Default – If the Borrower fails to make payments in a timely manner, the *Loan Agreement* provides that the entire balance shall be accelerated and become due and payable. Nonetheless, the Plan loan administrator cannot commence any action to foreclose its interest in the Borrower's vested account balance until the Borrower experiences a distribution triggering event as prescribed under the Plan. The Plan documents must be reviewed to determine the events necessary to trigger a distribution under the Plan.

Qualified Retirement Plan — LOAN APPLICATION

This form is completed and provided by loan applicants to their employer or former employer for approval. Any changes to the preprinted Loan Application could result in a delay in processing time.

GENERAL INFORMATION

Application Date____________________________

Borrower Name ____________________________

Social Security Number____________________________

Address ____________________________

Telephone Number *(Home)*____________________ *(Work)*____________________

Plan Name____________________________

LOAN REQUEST

☐ Yes ☐ No Is this a new loan request?

☐ Yes ☐ No Will the loan be used to purchase your primary residence?

Amount of loan requested ____________________________

The maximum amount is generally one-half your vested benefit or $50,000, whichever is less. Keep in mind prior outstanding participant loans during the previous 12 months will reduce maximum loan amount.

Term of loan requested ____________________________

The maximum term is five years unless the loan is used to purchase your primary residence.

METHOD OF DELIVERY OF LOAN PROCEEDS

☐ Check via Regular Mail

☐ Check via Overnight Mail *(fees apply—refer to your fee schedule)*

☐ ACH or Wire *(attach voided check)*

Type of Account ☐ Checking ☐ Savings

Financial Institution Name ____________________________

Account Number ____________________ ABA/Routing Number *(9-digit number)* ____________________

Financial Institution Phone Number ____________________________

SPOUSAL CONSENT TO LOAN

☐ ***The Plan Loan Administrator will check here if the following consent does NOT apply.***

I am the spouse of the Borrower named above. I hereby consent to my spouse's request for a loan from his or her vested account balance in the Plan. I understand that by consenting to my spouse's loan request, I may be forfeiting benefits I would be entitled to receive when my spouse dies.

BORROWER'S SPOUSE SIGNATURE ____________________________ DATE________________

WITNESS OF SIGNATURE

The signature of the spouse must be witnessed by a notary public or signature guarantee as required.

Subscribed and sworn to before me, a Notary Public/Plan Representative, this __________ day of ____________________.
(month/year)

NOTARY PUBLIC/SIGNATURE GUARANTEE ____________________________ DATE________________

SIGNATURES

Subject to the terms set forth in this *Loan Application* and related *Loan Agreement*, upon approval of this loan the Employer shall advance the amount specified to the Borrower.

The Borrower promises to make repayments in the amount and term specified in this *Loan Application* and in accordance with the related *Loan Agreement*.

BORROWER'S SIGNATURE ____________________________ DATE________________

If the Plan requires, the Borrower's signature must either be notarized or witnessed by a Plan representative.

Subscribed and sworn to before me, a Notary Public/Plan Representative, this __________ day of ____________________.
(month/year)

NOTARY PUBLIC/PLAN REPRESENTATIVE SIGNATURE ____________________ COMMISSION EXPIRATION DATE________________

PLAN LOAN ADMINISTRATOR USE ONLY:

☐ The loan is approved as follows:

Loan Amount ____________________ Interest Rate ____________________

Repayment Start Date ____________________________

If not completed by the Plan Loan Administrator, the repayment start date will be the next reasonable payroll date following the processing of the loan.

☐ The loan is denied due to

☐ Amount requested exceeds maximum allowable

☐ Minimum loan amount has not been met

☐ Other *(specify)* ____________________________

Plan Loan Administrator or Employer Signature ____________________________ Date____________________

Qualified Retirement Plan — LOAN AGREEMENT

In consideration for the mutual covenants and agreements contained on the *Loan Application*, the Employer and the Borrower named on the *Loan Application* mutually agree as follows.

1. **Definitions.** For purposes of this *Loan Agreement* (hereinafter referred to as **AGREEMENT**), the following terms shall have the meaning set forth below.

   1.1. **Borrower.** A party-in-interest, as defined under Employee Retirement Income Security Act of 1974 (ERISA) Section 3(14), who otherwise qualifies for a loan under this loan program.

   1.2. **Employer.** The Employer sponsoring the Plan.

   1.3. **Indebtedness.** The outstanding principal and interest balance owned at any time under this **AGREEMENT**. The total Indebtedness includes, but is not limited to, the following: principal, interest, and late fees.

   1.4. **Internal Revenue Code.** The Internal Revenue Code of 1986 and amendments thereto.

   1.5. **Plan.** The qualified retirement plan maintained by the Employer.

   1.6. **Vested Account Balance.** The value of the **BORROWER'S** accumulated benefits which are nonforfeitable.

2. **Repayment.**

   2.1. **Prepayment.** The **BORROWER** shall have the right to prepay without penalty all or a portion of the outstanding Indebtedness at any time.

   2.2. **Maximum Loan Amount.** At origination, the maximum amount of Indebtedness under this **AGREEMENT** shall not exceed the lesser of one-half the **BORROWER'S** Vested Account Balance or $50,000 (reduced by the highest outstanding loan balance during the 12-month period ending on the day before the date this **AGREEMENT** becomes effective). For purposes of determining the overall limit, all loans from all qualified retirement plans or 403(b)s of the Employer or its related employers described in Code Section 414(b), (c), and (m) shall be aggregated with the loan account balance.

   2.3. **Loan Account.** A Loan Account will be established and maintained for the **BORROWER** in accordance with this paragraph. The Employer shall debit to the Loan Account the principal amount of Indebtedness of the loan advanced to the **BORROWER** under this **AGREEMENT**. The Employer shall credit to the Loan Account all payments made on account of the Indebtedness by the **BORROWER**. Credit shall be applied first to accrued interest and then to principal.

3. **Security for Repayment.** To secure repayment of the Indebtedness of the **BORROWER** to the Plan and any extensions, renewals, refinancing, modifications, or replacements thereof, the **BORROWER** grants the Plan a security interest in the original amount of the principal, expressed as a percentage of the **BORROWER'S** Vested Account Balance under the Plan.

4. **Representations and Warranties of BORROWER.** The **BORROWER** represents and warrants that the **BORROWER** has furnished the Employer complete and correct copies of the written and signed consent of the **BORROWER'S** spouse providing authorization for the loan (if applicable), such consent having been provided not more than 90 days prior to the effective date of this **AGREEMENT**.

5. **Default.** The **BORROWER** shall be deemed in default if any one or more of the following events of default shall occur.

   5.1. The **BORROWER** fails to make payment on time or in the amount due pursuant to the provisions of Section 2 above.

   5.2. The **BORROWER** fails to keep any other promise made or obligation incurred under the terms of this **AGREEMENT**.

   5.3. The **BORROWER** terminates employment (unless the **BORROWER** continues to be a party-in-interest as defined under ERISA Section 3(14)).

   5.4. Other ____________________

6. **Results of Default.** Upon default by the **BORROWER**, the Employer shall be entitled to take such actions as prescribed by law including, but not limited to, the following:

   6.1. **Immediate Taxation.** In the event a default results in a deemed distribution pursuant to Code Section 72(p), the outstanding loan balance and any outstanding interest will be immediately taxable to the **BORROWER**. The Employer will ensure that an IRS Form 1099-R is issued to the **BORROWER** indicating the taxable amount to be repaid.

   6.2. **Payment.** After a loan is considered in default, it is still considered to be outstanding until a loan offset occurs. The Employer must make reasonable efforts to collect the loan amount.

   6.3. **Foreclosure.** Employer shall be entitled to foreclose its interest in the **BORROWER'S** Vested Account Balance upon the occurrence of a distribution triggering event, as defined in the Plan.

I acknowledge that I have read and understand the *Loan Application*, *Loan Agreement*, and, if applicable, a truth in lending disclosure and that I have received a completed copy of each of these forms.

Borrower's Signature ____________________ Date ____________

Borrower's Name (Typed or Printed) ____________________ Borrower's Social Security Number ____________

Spouse's Signature (if applicable) ____________________ Date ____________